

Brian J. McGuire
Vice President
Bankers Trust Company

January 28, 1999

 **Bankers Trust**
Architects of Value

Mr. Richard A. Causey
Senior Vice President and
Chief Accounting and Information Officer
Enron Corp.
P.O. Box 1188
Houston, Texas 77251

Dear Mr. Causey:

This letter is to confirm that Enron Corp. (the "*Company*") has engaged Bankers Trust Company ("*Bankers Trust*") as its exclusive financial advisor in connection with (a) the direct investment in various leased property (the "*Leased Assets*") and (b) a real estate investment trust (the "*REIT*") which will acquire and manage financial assets including real estate mortgage backed securities (the "*Mortgage Securities*") and residual interests (the "*REMIC Residuals*") in real estate mortgage investment conduits (the "*Transaction*").

The Transaction will be structured substantially as described during recent conversations between representatives of the Company and representatives of Bankers Trust, and otherwise as agreed to between the Company and Bankers Trust. An affiliate of Bankers Trust will transfer leased property to an Enron affiliate in exchange for cash of equal value. Bankers Trust will contribute various REMIC Residuals and Mortgage Securities to the REIT and will in return receive common stock and debt securities of the REIT. Affiliates of the Company will contribute Mortgage Securities to the REIT and will in return receive preferred stock of the REIT.

Upon the terms and subject to the conditions set forth below (the "*Agreement*"), Bankers Trust is retained as exclusive financial advisor to the Company and any of its applicable affiliates with respect to structuring the Transaction.

1. **Services.** At the request of the Company, Bankers Trust will use its best efforts to perform the following services in connection with the Transaction:
 - a) advise and assist in designing an appropriate structure for the proposed Transaction;
 - b) assist in the preparation of financial analysis and computer modeling with respect to the Transaction to the extent requested by the Company, it being understood that all results of the use of such model shall be the sole responsibility of the Company;

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- c) work with legal counsel, accountants and other relevant parties to document and close the Transaction;
 - d) provide future investment advisory services with respect to investments of the REIT, including acquisitions and dispositions of the REIT's assets, as requested by the Company or as deemed necessary by Bankers Trust (in its sole discretion);
 - e) provide assistance, as necessary, to have the record ownership of the REMIC Residuals transferred on the records of the respective trustees from that of Bankers Trust to that of the REIT; and
 - f) perform such other investment banking and financial advisory services related to or arising out of the services described in this paragraph 1, as Bankers Trust and the Company may from time to time agree.
2. **Compensation.** In consideration of the services rendered by Bankers Trust, the Company agrees to pay, or cause to be paid, to Bankers Trust a cash fee, in the aggregate amount of \$15,000,000, subject to any reduction pursuant to the terms hereof. The preceding sentence notwithstanding, (a) Bankers Trust will be paid \$5,250,000 on September 1, 1999 and an additional \$750,000 on each March 1, June 1, September 1 and December 1 of the years 1999 through and including 2002, beginning December 1, 1999 and ending December 1, 2002; and (b) if a change in law or accounting rule (or the enacted effective date thereof) prior to December 1, 2002 materially reduces the Company's expected accounting reporting treatment of the Transaction under GAAP (as hereinafter defined), the portion of such fee which has not been paid to Bankers Trust at such time will be forfeited by Bankers Trust. Because the predominant purpose of the Transaction is to generate financial accounting benefits, if a Change in Law Event (as such term is used in the operative documents) or a change in accounting rule (or the enacted effective date thereof) occurs prior to December 31, 2003, that materially reduces the Company's expected financial accounting benefit (the "Expected Benefit") from the Transaction under GAAP, the fee payable to Bankers Trust will be reduced on a proportionate basis (comparing the actual recorded benefit to the Expected Benefit), provided that in no circumstances will Bankers Trust fee be less than \$2 million.

For the purposes of this Agreement, (a) "GAAP" means generally accepted accounting principles in effect in the United States as in effect from time to time as applied to the REIT Transaction, and (b) the "Closing" is deemed to have occurred upon the transfer of the REMIC Residuals and the Mortgage Securities by Bankers Trust to the REIT and the acquisition by an Enron affiliate of the Leased Assets.

It is understood that the foregoing fee does not include fees for additional services including services provided to the Company or its affiliates under other engagement letters, and other services such as swaps, bridge financing, valuation services, commitment fees, and fees and expenses for other parties involved in the transaction (e.g., trustee fees and expenses).

3. **Indemnification.** The Company hereby agrees to indemnify and hold harmless Bankers Trust and its affiliates and their respective directors, officers, employees, agents and representatives (collectively, "*Indemnified Persons*") from and against all losses, claims, damages, liabilities, costs and expenses incurred by any of them (including fees and disbursements of legal counsel) which (i) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in any information provided by the Company in connection herewith or arise out of or are based upon any omission or alleged omission to state therein any material fact necessary to make the statements therein not misleading, or (ii) are otherwise related to or arise out of or in connection with the services contemplated hereby, and the Company will reimburse Bankers Trust and each other Indemnified Person for all expenses (including fees and disbursements of legal counsel) as they are incurred in connection with investigating, preparing or defending any such action or claim, whether or not in connection with pending or threatened litigation in which Bankers Trust or such other Indemnified Person is a party. The Company will not be responsible, however, for any losses, claims, damages, liabilities, costs or expenses of any Indemnified Person pursuant to clause (ii) in the preceding sentence to the extent they result primarily from the bad faith or recklessness of such Indemnified Person. The Company also agrees that neither Bankers Trust, nor any other Indemnified Person, shall have any liability to the Company for or in connection with the services contemplated hereby except for such liability for losses, claims, damages, liabilities, costs or expenses incurred by the Company to the extent they result primarily from Bankers Trust's bad faith or recklessness. If for any reason the foregoing indemnification is unavailable to an Indemnified Person or insufficient to hold any Indemnified Person harmless, then the Company shall contribute to the amount paid or payable by it and Bankers Trust as a result of such losses, claims, damages, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative benefits received by the Company on one hand and Bankers Trust on the other hand, as well as any relevant equitable considerations. The amount paid or payable by a party as a result of losses, claims, damages, liabilities, costs or expenses shall be deemed to include any reasonable legal or other fees or expenses incurred in defending any action or claim. In no event shall the Company be liable to any Indemnified Person for any lost or prospective profits or any other special, punitive, exemplary, consequential, incidental or indirect losses or damages (in tort, contract or otherwise) under or in respect of this Agreement for any failure of performance related hereto howsoever caused, whether or not arising from the Company's sole, joint or concurrent negligence. The Indemnified Persons shall not be required to contribute in the aggregate any amount in excess of the amount of fees actually received by Bankers Trust hereunder.
4. **Company Approval.** The Company acknowledges that the Transaction has been approved by senior management personnel of the Company and by the Executive Committee of its Board of Directors.
5. **Additional Services.** If the Company requests Bankers Trust to perform services not contemplated by this Agreement, or if the terms and conditions of Bankers Trust's engagement

- change, Bankers Trust's compensation therefor will be determined through negotiations conducted in good faith, and the terms of such engagement will be set forth in a separate written agreement between the Company and Bankers Trust. Nothing in this Agreement is intended to obligate or commit Bankers Trust or any of its affiliates to provide any services other than as set out herein.
6. **Affiliate Services.** In connection with the services to be provided hereunder, Bankers Trust may employ the services of its affiliates, including BT Alex. Brown Incorporated. Bankers Trust may share with any of its affiliates any non-public information related to the Company or the contemplated Transaction. The term "*affiliate*" as used herein shall have the meaning ascribed to such term in the rules and regulations promulgated under the Securities Exchange Act of 1934, as amended.
 7. **Survival.** Bankers Trust's engagement hereunder may be terminated at any time by either Bankers Trust or the Company by prior written notice thereof to the other party, provided, that the indemnification provisions set out in Paragraph 3, the compensation provisions outlined in Paragraph 2, and the representations and warranties of the Company contained herein, shall remain operative and in full force and effect and shall survive such termination. The indemnity obligations of the Company hereunder and referred to herein shall be in addition to any liability the Company may otherwise have.
 8. **Information.** The Company agrees to furnish Bankers Trust with such information as Bankers Trust reasonably requests in connection with its engagement hereunder. The Company recognizes and confirms that Bankers Trust (i) will be relying solely on such information and other information available from generally recognized public sources in performing the services contemplated hereunder, (ii) will not independently verify the accuracy or completeness of such information, (iii) does not assume responsibility for the accuracy or completeness thereof, and (iv) will make appropriate disclaimers consistent with the foregoing.
 9. **Counterparts, Etc.** This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof, supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof and cannot be amended or otherwise modified except in writing executed by the parties hereto. Bankers Trust may transfer or assign, in whole or from time to time in part, to one or more of its affiliates its rights and obligations hereunder, but no such transfer or assignment will relieve Bankers Trust of its obligations hereunder without the prior written consent of the Company. The provisions hereof shall inure to the benefit of and be binding upon the successors and assigns of the Company and Bankers Trust and their respective affiliates.

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10. **Governing Law.** THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE CONFLICTS OF LAWS PROVISIONS THEREOF.
11. **Notices.** Notice given pursuant to any of the provisions of this Agreement shall be in writing and shall be mailed or delivered (a) to the Company, at its office at the address set forth above and (b) to Bankers Trust, at its offices at One Bankers Trust Plaza, 130 Liberty Street, New York, New York 10006, Attention: Mr. Brian McGuire.
12. **Bankers Trust Advice, Role, Etc.** No opinion or advice rendered by Bankers Trust, whether formal or informal, may be publicly disclosed nor may the Company refer to Bankers Trust's role in the contemplated Transaction without Bankers Trust's prior written consent. The Company confirms that it will rely on its own counsel, accountants and other similar expert advisors for legal, accounting, tax and other similar expert advice. Moreover, the Company understands and agrees that Bankers Trust makes no representation or warranty as to the tax or accounting consequences of the Transaction. The Company further agrees that neither Bankers Trust nor any of its directors, officers, employees, agents or representatives shall have any liability to the Company or its representatives resulting from their use of the form of structure to be used in the Transaction.
13. **No Rights in Shareholders, Etc.** The Company recognizes that Bankers Trust has been retained only by the Company, and that the Company's engagement of Bankers Trust is not deemed to be on behalf of and is not intended to confer rights upon any shareholder, owner or partner of the Company or any other person not a party hereto as against Bankers Trust or any of Bankers Trust's affiliates or the respective directors, officers, agents, employees or representatives of Bankers Trust or Bankers Trust's affiliates. Unless otherwise expressly agreed, no one other than the Company is authorized to rely upon the Company's engagement of Bankers Trust or any statements, advice, opinions or conduct by Bankers Trust.

If the Company is in agreement with the foregoing, please sign and return one copy of this letter which will thereupon constitute the agreement of the parties hereto with respect to the subject matter of this letter.

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BANKERS TRUST COMPANY

By: 

Brian J. McGuire
Vice-President

Agreed and Accepted:

Enron Corp.

By: 

Richard A. Causey
Senior Vice President

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